

**10/24/77**

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THE WHITE HOUSE  
WASHINGTON

October 24, 1977

Secretary Califano

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

RE: WELFARE FRAUD AND ABUSE

THE WHITE HOUSE  
WASHINGTON

October 24, 1977

Stu Eizenstat  
Jack Watson

The attached was returned in the President's outbox today and is forwarded to you for your information: Sec. Califano has received a copy for appropriate handling.

Rick Hutcheson

RE: WELFARE FRAUD AND ABUSE

THE WHITE HOUSE  
WASHINGTON

+ CC  
California

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
	X	WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN



THE PRESIDENT HAS SEEN.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE  
WASHINGTON, D. C. 20201

October 20, 1977

MEMORANDUM FOR THE PRESIDENT

FROM : JOSEPH A. CALIFANO, JR.

SUBJECT: Welfare Fraud and Abuse

On October 15 you requested information on what action is being taken against welfare cheaters found (a) in HEW and (b) in other places.

For all Federal employees found to have defrauded the welfare system, we have worked out guidelines for penalties through a task force from HEW, Justice and the Civil Service Commission. These guidelines are now being circulated for signature by the agency heads.

They call for prosecution of employees who are totally ineligible for welfare benefits, whose income is over \$10,000 per year, and who have received more than \$2,000 in benefits in a year. Those convicted and incarcerated would automatically be removed from the Federal rolls. The cases of those convicted but not incarcerated and those ineligible but not prosecuted would be referred to their employing agencies for disciplinary action, including removal from Federal employment where appropriate. Other alternatives, at the discretion of the employer, covered in the guidelines, include suspension and/or demotion of the employee.

Restitution of amounts received improperly will be sought in every case, whether the recipient is prosecuted or not. And, of course, the ineligible employee will be removed from the welfare (AFDC) rolls and, in many cases, from the Medicaid and food stamp rolls as well.

As a pilot effort, we have, as you know, compared our HEW payroll with the District of Columbia AFDC rolls and found 216 matches, of which 142 appear questionable. More than half of these 142 matches have been reviewed by the District

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for Preservation Purposes

*Joe - Explain the  
"37" cases found  
nationwide - project  
MATCH - as reported  
by news This weekend  
J.C.*

thus far, and preliminary indications are that the majority will be found to be either totally ineligible or receiving a larger benefit than proper. We plan to refer these cases to the U.S. Attorney, and those not prosecuted will be dealt with administratively in the manner noted above.

You may be interested to know that our national effort against Federal welfare cheaters has been modeled on efforts by U.S. Attorneys, first in Detroit and then in Chicago, who worked with State welfare agencies to find and act against such fraudulent behavior. In Detroit, a computer screening of 11,000 Federal workers produced 200 ineligible cases, and about 100 convictions. Some of these involved jail terms, but many coupled a suspended sentence with mandatory restitution. In Chicago, out of 22,000 Internal Revenue and Postal employees screened, 219 were found overpaid or ineligible, with 38 of them indicted for fraud.

Our national effort, called Project Match, now involves computer comparison of Federal payrolls and welfare rolls in 24 States which have a high concentration of Federal workers and sizeable welfare rolls. Both Federal agencies and the States are cooperating, and HEW is in the process of comparing the Federal and State computer tapes at present. Based on experience in Detroit, Chicago, and the District, we would expect several thousand to be removed from the welfare rolls, and a sizeable number convicted of fraud in coming months.

We will expand this effort as resources are available.

THE WHITE HOUSE  
WASHINGTON

October 21, 1977

The Vice President  
Stu Eizenstat  
Jody Powell  
Jack Watson  
Jim McIntyre

The attached will be submitted to the President. This copy is forwarded to you for your information.

Rick Hutcheson

RE: WELFARE FRAUD AND ABUSE

THE WHITE HOUSE  
WASHINGTON

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<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day	

<input type="checkbox"/>	ARAGON
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THE WHITE HOUSE  
WASHINGTON

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*Decision sent to Blumenthal by NSC*

ACTION	FYI	
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<input type="checkbox"/>	WARREN

THE WHITE HOUSE  
WASHINGTON

October 24, 1977

Jim McIntyre

The attached was returned in the President's outbox today. Sec. Blumenthal was informed by NSC. This copy is forwarded to you for your information and appropriate handling.

Rick Hutcheson

cc: Stu Eizenstat  
Zbig Brzezinski

RE: WEEKEND REQUEST FOR \$40 MILLION  
US CONTRIBUTION TO US-ISRAEL  
AGRICULTURE RESEARCH FOUNDATION

THE WHITE HOUSE  
WASHINGTON

10/24/77

Mr. President:

DECISION IS NEEDED BY 9:00 AM  
today (because of time  
difference).

Eizenstat and Brzezinski concur  
with McIntyre.

Secretary Blumenthal's request  
was received on Friday evening  
by OMB.

Rick

~~THE PRESIDENT~~ HAS SEEN.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

OCT 21 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Jim McIntyre, Jr. *Jim McIntyre*

SUBJECT: Weekend Request for \$40 million US Contribution to US-Israel Agriculture Research Foundation

Treasury has proposed a draft US/Israel agreement to establish a fund to finance joint agricultural research projects. Under this arrangement, the Department of Agriculture would seek \$40 million in appropriations next year for the US share of an \$80 million endowment for the fund. Secretary Blumenthal wishes to sign the agreement during his visit to Israel on Monday, October 24 and has so indicated to the Israelis.

In line with your policy on future budget commitments, OMB told Treasury that the proposal is subject to OMB/NSC review and your approval. The concept has been in preparation for over a month, but our repeated requests that the plan be forwarded for timely Executive Office review have not been met until late today. The main Treasury officials who designed the proposal are now abroad and thus are not available for a discussion of the issues. Treasury and State believe that it is imperative that Secretary Blumenthal sign the agreement even without interagency review and may contact you directly on this matter. Mike's formal request to you (attached), is in the form of a brief letter, with no detail on the proposal. Substantively, our recommendation would be that you not make the authorization pending our analysis, but we recognize that this course may cause political embarrassment abroad.

As this issue exemplifies, we continue to have difficulty in obtaining timely cooperation from the foreign affairs agencies in carrying out the future budget commitments process, even in cases where we are aware of and ask for formal requests well in advance of diplomatic deadlines. Last minute spending requests clearly limit your decisionmaking flexibility. You may wish to raise this problem at the next Cabinet meeting. Obviously, some issues will require last minute processing. Cases such as this one, when timely justification was possible, seriously undermine the integrity of the commitments process and your control of both policy and budgets.

Recommendation

Despite our serious concerns about the above process, we believe you should approve the Treasury proposal, in light of the probable negative implications of saying no at this late date.

Approve ✓

Disapprove \_\_\_\_\_

*But emphasize  
50:50 matching -  
Minimize maximum  
amount  
J.C.*

*Mike was with me for an  
hour lunch Thurs. & didn't  
mention this -  
J.C.*

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THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

PRIORITY

OCT 21 1977

MEMORANDUM FOR THE PRESIDENT

Through: James T. McIntyre  
Acting Director  
Office of Management and Budget

Subject: U.S.-Israel Agricultural R&D Fund

During my trip to Israel next week, I will be discussing a number of trade and investment issues with the Israelis. The centerpiece of our discussions is to be the conclusion of an agreement to establish a United States-Israel Agricultural Research and Development Fund.

The Fund will make loans and grants to institutions (public, non-profit, and private) which undertake research and development projects of mutual benefit to the United States and Israel. It will be funded by contributions from both countries of \$40 million apiece. The Fund agreement is contingent on Congress authorizing and appropriating the U.S. contribution.

The Fund will be of significant benefit to the United States because it will promote closer ties with Israel in agricultural research and development, including those fields in which Israel has advanced technology, such as water utilization.

The Secretaries of State and Agriculture support the Fund agreement, and concur in my signing it on behalf of the United States. I request your approval of this course of action.

*Mike*

W. Michael Blumenthal

Approve: \_\_\_\_\_

Disapprove: \_\_\_\_\_



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

DATE: 10/21

TO: Bill Simon

FROM: Terri

Bill -

Randy has given a  
copy of this to Zbig -

Schultz - WC

42 concus  
received  
10/22  
B

23 concus  
my phone -  
TLC w/ Bob 90m  
- same couch  
Oct 1, 1973

OMB FORM 38

REV AUG 73

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THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 21, 1977

MEMORANDUM TO THE PRESIDENT

FROM: JIM FALLOWS *JF*

SUBJECT: Wreath laying ceremony at Arlington Cemetery

Susan Battles has these suggestions.

1. This is the day our nation pauses in thoughtful silence to honor and commemorate the veterans of America, both living and dead. You are only the third President in history to attend these ceremonies and deliver an address. (The other two were President Kennedy in 1961 and President Ford in 1974.)

2. Ceremonies like these often inspire painful and mixed feelings within us. As we commemorate the dead of other wars, we remember the devastation war does bring. Americans from the South are particularly aware of that, since the South is the only part of the country that has suffered a military defeat. As Robert E. Lee once wrote to his wife: "What a cruel thing is war; to separate and destroy families and friends, and mar the purest joys and happiness God has granted us in this world; to fill our hearts with hatred instead of love for our neighbors, and to devastate the fair face of this beautiful world."

But knowledge of the horrors of war makes us all the more determined to be strong enough, prepared enough, and firm enough in our will to be able to prevent them -- and to protect ourselves and our values if we must.

3. There are nearly 30 million veterans in the United States today, starting with those who fought in the Spanish-American War and including veterans of World Wars I and II, Korea, and Viet Nam. From the Revolutionary War on, almost 45 million people have served in the Armed Forces; one million of those have died on the battlefield. These are not just numbers to be recorded and forgotten. As Francis Bacon said, "Peace is better than war because in peace the sons bury their fathers, and in war the fathers bury their sons."

*Civil War  
widows*

4. Your own family's tradition of military service is strong; you a member of American Legion Post #2 in Americus, as was your father before you. Your first ancestor to live in Georgia, James Carter, fought in the Revolutionary War. Others fought in the War between the States, your father served as a first lieutenant in the Army during World War I, and you had 11 years of service in the Navy, including the time you spent at the U.S. Naval Academy.



Your own family has felt the strains placed upon the modern military. During the second World War and even during Korea, you wore your uniform with pride, but your son Jack, who came home from Viet Nam in 1969, did not have the same experience. Like thousands of other young men and women, he found that his uniform was met with derision and scorn. The protests and the national mood they reflected amounted to nothing less than an American tragedy.

5. To believe unashamedly in patriotism -- that people should love our country and be willing to fight to defend it -- does not mean that we seek blind or uncritical patriotism. A government's policies must earn the people's support, and as President, you plan to do everything in your power to set a national tone that encourages patriotism. You want America to look ahead to peace; to openness and honesty in government; and to leadership that inspires intelligent patriotism. Ralph Waldo Emerson had a unique idea of patriotism. "Any relation to the land, the habit of tilling it, or mining it, or even hunting on it, generates the feeling of patriotism."

6. Our veterans face serious problems today -- problems of joblessness and ill-health, both physical and mental. Because of this, the Administration has taken the following steps:

a) you have asked Congress for increases in VA compensation, in VA pensions, and in G.I. Bill education.

b) you withdrew the previous Administration's proposal to Congress to reduce the period of G.I. Bill education eligibility from 10 to eight years, and you reversed a recommendation to discontinue VA's education loan program. The first year cost of the increases and improvements in veterans' programs comes to \$1.1 billion.

c) you are supporting readjustment counseling for Viet Nam-era veterans who need it.

d) you support extending CETA, including the hiring of disabled veterans and providing jobs for veterans on a priority basis.

e) you support in principle legislation which would provide VA grants for sepcially adapted housing to more seriously disabled veterans.

f) you signed into law a bill requested by your Administration to improve and increase VA grant programs to state governments which will provide more hospital, domiciliary, and nursing home care available to veterans.

g) your Administration is recommending an extension of the VA Physician and Dentist Pay Comparability Act of 1975 which is vitally needed to enable the VA to recruit and retain quality medical care personnel to serve our veterans.

7. A final quote from Cicero: "The only excuse for war is that we may live in peace unharmed."

# # #

THE WHITE HOUSE

WASHINGTON

VISIT TO

ARLINGTON NATIONAL CEMETERY

Monday - October 24, 1977

Departure: 10:50 a.m.

From: Tim Kraft

SEQUENCE

10:50 a.m.

You, Mrs. Carter and Amy board motorcade and depart South Grounds en route Arlington National Cemetery. Congressman George Mahon will ride with you.

10:57 a.m.

Motorcade arrives Memorial Gates of Arlington National Cemetery and proceeds to Memorial Amphitheatre.

10:59 a.m.

Motorcade proceeds to Memorial Amphitheatre.

OPEN PRESS COVERAGE

You and Mrs. Carter will be met by:

Max Cleland, Veterans Administration  
Administrator

Gen. Kenneth Dohleman, Commanding  
General, Military District of  
Washington

Douglas McGarrity, National Commander  
of Military Order of the Purple Heart  
Major Tom Groppel, Ceremony Officer of the  
Military District of Washington

11:00 a.m.

You, Mrs. Carter and Amy and the greeting committee form a double line as follows:

LEFT SIDE

Gen. Dohleman

Mr. McGarrity

Maj. Groppel

RIGHT SIDE

President, Mrs. Carter,  
Amy

Max Cleland

LCDR Reason

2.

Group proceeds in formation up sidewalk to plaza area in front of the Tomb of the Unknown Soldier.

PRESS POOL COVERAGE

11:02 a.m.

Presidential party arrives plaza area. All but Mrs. Carter and Amy proceed to front of Tomb in same formation.

Mrs. Carter and Amy will be escorted to their places in the viewing area.

11:03 a.m.

Band plays the National Anthem.

11:06 a.m.

A Sergeant will approach you from your left with a wreath placed upon his outstretched arms.

You place your hands upon the wreath.

You and the Sergeant, remaining in this position (the Sergeant stepping backward), proceed to the front of the Tomb and in unison place the wreath at its base.

OPEN PRESS COVERAGE

You return to your place in the formation.

The Sergeant returns to his place.

A bugler will play Taps.

NOTE: You should place your hand over your heart during Taps.

You and others observe thirty seconds of silent prayer.

11:15 a.m.

Wreath-laying ceremony concludes.

Mrs. Carter and Amy take their places behind you, and the formation proceeds up the steps into a holding room (Trophy Room).

3.

11:16 a.m.

The Presidential party arrives holding room.

PERSONAL TIME: 8 minutes

NOTE: Mrs. George Dounias, National President of the Military Order of the Purple Heart Ladies; Major General Charles Rogers; Rufus Wilson, Deputy VA Administrator; Ray Costanzo, Superintendent of Arlington National Cemetery, will be in the holding room when you arrive.

11:22 a.m.

Mrs. Carter and Amy will be escorted to their seats.

11:24 a.m.

You and Max Cleland, Gen. Kenneth Dohleman, Douglas McGarrity, Mrs. Georgia Dounias, Maj. Gen. Charles Rogers, and Rufus Wilson proceed to the stage and take your seats.

11:25 a.m.

Invocation by Chaplain James Paul Carter, Sr., from the Murphy Veterans Administration Hospital, San Antonio, Texas.

11:27 a.m.

Pledge of Allegiance led by Maj. Gen. Charles Rogers.

11:28 a.m.

Band plays the National Anthem.

11:32 a.m.

Max Cleland introduces you.

11:33 a.m.

PRESIDENTIAL REMARKS.

OPEN PRESS COVERAGE

11:43 a.m.

Remarks conclude. Accompanied by Max Cleland and Gen. Dohleman, you depart stage en route motorcade for boarding.

4.

Mrs. Carter and Amy leave  
their seats and join you  
en route.

11:45 a.m.

You, Mrs. Carter and Amy board motorcade  
and depart en route South Lawn.

11:52 a.m.

Motorcade arrives South Lawn.

# # # # #

FALLOWS TALKING POINTS

THE WHITE HOUSE  
WASHINGTON

October 24, 1977

Stu Eizenstat  
Bob Lipshutz

The attached CAB decisions were returned in the President's outbox today and are forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling..

Rick Hutcheson

RE: DOCKETS 30986, 29727, 30871 and 30710



THE WHITE HOUSE

WASHINGTON

October 20, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ  
STU EIZENSTAT

*Handwritten initials: BLS, SE*

RE: CAB Orders Re  
(1) Air-Siam Air Co. Ltd. (Docket 30986)  
(2) Caraibische Lucht Transport,  
Maatschappij, NV (CLTM) (Docket 29727)  
(3) Guyana Airways Corp. (Docket 30871)  
(4) Kinniburgh Spray Service Ltd. (Docket  
30710)

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These routine CAB orders concerning foreign carriers:

1) cancel Air-Siam's permit because the Thai government has also cancelled the carrier's operating license and it has no assets or aircraft;

2) amend the permit of CLTM to authorize scheduled cargo service between the Dutch Antilles, several other points in the Caribbean, and Miami and San Juan;

3) renew for five years Guyana's permit authorizing cargo service between Guyana, other points in the Caribbean, and Miami; and

4) grant Kinniburgh authority to use small aircraft for charter flights between the United States and Canada.

The interested agencies have no objections to the proposed orders. We recommend that you sign all four.

✓ Approve

\_\_\_\_\_ Disapprove

Mr. President:

4 SIGNATURES REQUESTED.

Rick (wds)

*Handwritten signature*

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE  
WASHINGTON

C  
/

October 22, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

Stu

SUBJECT: SALT

Please permit me to urge you in the strongest way not to announce a SALT Agreement until after the energy bill has passed both Houses and Congress had adjourned. Such an announcement will simply draw attention away from the energy bill and throw yet another controversial issue into the melting pot. It would be contrary to the determination we have made to focus on energy as our number one priority during the remaining weeks of the legislative session.

cc: Zbigniew Brzezinski

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MEMORANDUM


THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

INFORMATION

24 October 1977

TO: THE PRESIDENT  
FROM: RICK HUTCHESON   
SUBJECT: Memos Not Submitted

1. SECRETARY ADAMS sent you a memo expressing great concern about a reorganization paper sent to DOT for comment which lists as an option the transfer of the Coast Guard to a new border management agency. Adams says that transportation needs to be viewed as a national system, and objects to the PRP's examining several DOT functions on a piecemeal basis. Adams states that DOT is now conducting its own review of transportation policy, and asks to discuss with you the Coast Guard recommendations "before any options paper is released by the PRP which may cause considerable difficulties for the whole project."

McIntyre responds that Adams is commenting on a preliminary draft options paper sent to DOT for comments. McIntyre says he has not yet approved these options, but "would strongly object to removing options simply because one Cabinet officer finds them either untenable or politically unwise." Adams' views on the Coast Guard will be fully reflected in the border management decision memo when it reaches the President. McIntyre says that the PRP will conduct an overall transportation study, but is waiting for DOT to first complete its internal review.

Eizenstat recommends "against your intervening at this preliminary stage in OMB's process." Adams should present his views to you at the appropriate time, "but we should not short-circuit the process at this point."

2. SECRETARY ADAMS also sent you a letter informing you that he "fully concurs" with your comments to him regarding US goals in the current aviation negotiations with Japan.

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THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

October 17, 1977

MEMORANDUM FOR THE PRESIDENT

SUBJECT: President's Reorganization Project

The President's Reorganization Project (PRP) has forwarded for my comment a paper on "Reorganization Options Related to Border Management." I am very concerned about the content of this paper and expressed my concern at the cabinet meeting on Wednesday because it gives an extremely unbalanced view of the United States Coast Guard and its various missions and represents what I believe is a serious overall flaw in the process the PRP is using to review transportation programs.

The paper proposes, as an option, the transfer of the Coast Guard to a Department housing a new border management agency. There have been extensive discussions at the staff level during the last several weeks which highlighted the serious defects in this proposal. Yet, the PRP staff continues to insist on including this option in its recommendations despite the fact that only 11 percent of the United States Coast Guard resources involve duties shared with the other "Border" agencies.

The organizational location of the Coast Guard should logically be defined by its most important missions. The Coast Guard's operational, regulatory and most of its law enforcement functions are directly involved in transportation and facilitation, and that is why it has logically and properly been an integral part of the Department of Transportation.

I am also aware there is a separate study being developed, at your direction, by the Department of Commerce on the feasibility of an "Oceans Agency." As in the case of border management, this study appears headed toward a proposal that would transfer the Coast Guard to even another Department. The impetus for this effort seems to be a few

Congressional staff representatives--one of whom chairs the study--who take a very narrow view of the Coast Guard and its functions.

The PRP study of community and economic development also involves several parts of this Department. These several disparate and seemingly uncoordinated efforts make it apparent that the PRP staff is viewing many of the DOT's functions on an individual and piecemeal basis and not as integral parts of a cohesive Agency. Transportation is not and should not be viewed simply as an ancillary support function to "community and economic development," "border management," "oceans policy," etc. The whole purpose of creating the Department was to make transportation operate as a complete national system.

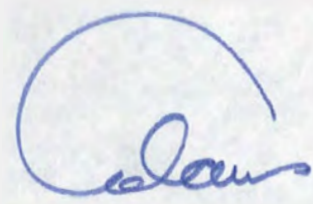
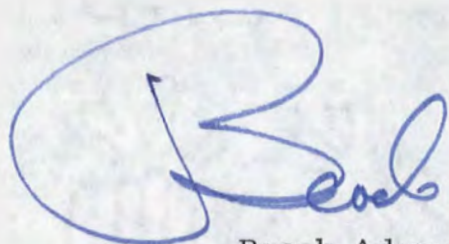
There should be a thorough review of the way the Executive Branch is organized to support the Nation's transportation needs. In fact, we have already done extensive work on such a review within the Department of Transportation, including a comprehensive effort towards grant consolidation. I would be willing to integrate our efforts in this area with the work of the PRP.

In pursuing the overall issue of transportation organization, an important first consideration should be the fragmentation in the maritime transportation mode; and the Coast Guard is clearly central to any Executive Branch reform in that area. As a first step in addressing this problem, I am prepared immediately to create a Maritime Assistant Secretary in this Department. I have already deliberately reduced the number of Assistant Secretaries and staff in the Department of Transportation, so there is available an Assistant Secretary position for maritime activities within the existing staff and budget of the Department. This could include Deepwater Ports, the Saint Lawrence Seaway, and in the long range--inland waterways (the Panama Canal, if you wish) and the Coast Guard.

I have not proposed this prior to this time because these are probably controversial and the affected groups (Maritime Administration, the Corps of Engineers--waterway operators, etc.) should be contacted before any proposals are made. However, when proposals are being made to have the whole reorganization of maritime affairs, then I believe we should stop and determine what are first priorities. I have informed Jim McIntyre and his staff about my strong feelings on this subject.

In summary, I am most concerned that the current focus on our Nation's transportation system through the PRP is disjointed and, in the case of the two efforts I have cited above, the recommendations respecting the United States Coast Guard are "out of phase" and ill-considered.

I believe it is very important we discuss this personally before any options paper is released by the "President's Reorganization Project" which may cause considerable difficulties for the whole project.



Brock Adams

THE WHITE HOUSE

WASHINGTON

Date: October 18, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat

Jack Watson

Jim McIntyre

Richard Pettigrew

FOR INFORMATION:

The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Administratively Confidential Adams memo dated 10/17  
re President's Reorganization Project

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: Thursday

DATE: October 20, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



PRESIDENT'S  
REORGANIZATION  
PROJECT

WASHINGTON, D.C. 20503

OCT 20 1977

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. *James T. McIntyre*

SUBJECT: Secretary Adams' Memorandum of October 17, 1977

I have several comments on Secretary Adams' memorandum of October 17 to you on our Coast Guard options and general approach to transportation reorganization. The memorandum raises an important procedural point which should be addressed before responding to the Secretary's specific comments.

The Secretary is responding to a preliminary draft options paper transmitted for his comment. These are not yet Presidential options, nor are they options which Harrison Wellford or I have approved. Rather, this is a preliminary staff paper designed to give affected agencies an opportunity to have a meaningful role in the development of options and to incorporate their views fully in subsequent drafts and in the final decision paper. If an open process such as this is not followed by the PRP, the quality of the options available for your decision will suffer. We would strongly object to removing options simply because one Cabinet officer finds them either untenable or politically unwise.

As to the Secretary's specific comments, we have known for some time that DOT was conducting its own assessment of national transportation policy and departmental organization. We felt it appropriate for DOT to take the lead here but have been attempting to monitor the internal work on a regular basis.

We have made particular efforts to keep our community and local economic development reorganization project closely coordinated with the internal DOT review, particularly the review of assistance structures. For example, the assistant study director of the PRP project is detailed from DOT. Our study is focusing on the coordination problems that now exist between transportation programs and other federally supported development activities and seeking ways to reduce these problems. The direction the DOT task force is taking seems quite consistent with the direction we are likely to take in the local development reorganization project.



Beyond this, we have a broader transportation policy issue on our reorganization agenda. In view of the DOT work, we decided to delay full-scale work on this project until completion of the DOT internal review. This will give us a clearer backdrop against which to consider inter-departmental organizational questions in this area.

Finally, Secretary Adams expresses concern that the PRP preliminary draft options paper on border management includes options regarding the proper role and priorities of the Coast Guard. The proposed options range from redefining the Coast Guard's priorities to transferring the Coast Guard to an agency having responsibility for unified border management functions. PRP analysis indicates a definite need for some reorganization of the border management functions of patrol and inspection, and that improved enforcement is necessary at our borders (including the coastal borders). PRP determined that the Coast Guard (although it is the primary U.S. maritime law enforcement agency) now places minimal emphasis on border related law enforcement activities. For instance, Customs has a fleet of 55 vessels, Coast Guard a fleet of over 2,000. In Fiscal 1977, Customs indicates that it seized approximately three hundred vessels in narcotics enforcement actions, while the Coast Guard indicates that it seized only eleven. The Coast Guard has admitted that many Coast Guard vessels today do not even have law enforcement capability (i.e., they are not manned by personnel who can legally exercise enforcement authority, and they are not armed).

The United States today is vulnerable to the smuggling of drugs, aliens, and contraband along the thousand of miles of unprotected coastline. This vulnerability could represent a serious deficiency in establishing your drug smuggling enforcement effort and undocumented alien initiative.

We have tried to work closely with Secretary Adams and the rest of the Cabinet in the reorganization project and will continue to do so. His points will be fully considered in reaching recommendations and will be completely reflected in the decision memoranda transmitted to you.

Date: October 18, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat

Jack Watson

Jim McIntyre

FOR INFORMATION:

The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Administratively Confidential Adams memo dated 10/17  
re President's Reorganization Project

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: Thursday

DATE: October 20, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

Sending this to the President  
now seems premature. Brock  
made this point at the  
Cabinet briefing by ONB on  
reorganization and it seemed  
as though ONB was seriously con-

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required  
material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Sidering it.  
Should this

turn out not to be the case, then this memo

Should be transmitted.

THE WHITE HOUSE

WASHINGTON

October 21, 1977

MEMORANDUM FOR: THE PRESIDENT  
FROM: STU EIZENSTAT *Stu*  
SUBJECT: Secretary Adams' October 17 Memo:  
"President's Reorganization Project."

Secretary Adams' principal concern involves a staff paper circulated to the Cabinet by OMB's reorganization project "Border Management" study team. The paper is a preliminary discussion document intended to elicit Cabinet comments, prior to the preparation of a draft Presidential decision memorandum for review by Harrison Wellford and Jim McIntyre. The paper describes relevant options, but does not suggest recommendations.

Secretary Adams says that the option of transferring the Coast Guard to a new Border Management Agency is unsound and that OMB's staff should cease to give any further consideration to this option.

Whatever the merits of this option, I recommend against your intervening at this preliminary stage in OMB's process of analysis and consultation. Concerns such as those Secretary Adams is voicing are likely to be repeated by other Cabinet officers as our reorganization effort proceeds. Any wide-ranging, cross-cutting analysis of federal organization must consider possible realignments of departments and their components. It is of course legitimate for agency heads to criticize options of which they disapprove, both to Jim and his staff and to you, after OMB has honed the issues into a decision package appropriate for your consideration. The OMB staff paper in question was prepared for that consultative purpose, and Secretary Adams states that he has informed Jim and the OMB staff about his views. They will consider and reflect them in the decision memorandum they frame for you. Plainly, the Secretary should and will present his views to you at that time, but we should not short-circuit the process at this point.

THE WHITE HOUSE

WASHINGTON

October 20, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

RICHARD PETTIGREW

*Rich*

SUBJECT:

Secretary Adams' Memorandum  
re Coast Guard Transfer

Secretary Adams' memorandum regarding the Coast Guard transfer option runs counter to our whole strategy of public involvement. If you are to be advised adequately before you decide upon controversial reorganization proposals, those proposals should be pretested and presold.

After a reorganization plan is presented to the Congress and the 60-day clock begins to run, it is too late to build the necessary support for the plan both within and outside the Congress. If there has been no pretesting and preselling before such presentation, such controversial proposals will meet a firestorm of criticism which cannot be quelled in the short period before Congress must either veto or approve.

That is why an open and systematic consultation process with the Congress and its staffs, the interest groups which have major impact on the Congress, and key opinion leaders and the media is essential to success. That process is predicated on eliciting focused reaction and comment on preliminary findings and options that are seriously intended to be presented to you.

It is granted that spurious and unrealistic options should not be floated publicly, but the transfer of the Coast Guard option deserves serious consideration and testing. The public review of that alternative along with the other two will be very healthy in sharpening the law enforcement role of the Coast Guard, even if you ultimately decide to leave it in the Department of Transportation. The necessity for its close coordination with the border agency will have been underscored.

THE WHITE HOUSE  
WASHINGTON  
October 20, 1977

Stu Eizenstat  
Jack Watson  
Jim McIntyre

The attached is forwarded to  
you for your information.

Rick Hutcheson

AVIATION NEGOTIATIONS WITH JAPAN

*To be  
summarized*

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
/	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	
FYI	

*No Action necessary*

	MONDALE
	COSTANZA
/	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
/	WATSON
/	<del>FRANCE</del> JM
	SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE WHITE HOUSE  
WASHINGTON

10/19/77

TO. Rich Hutchinson

For Your Information: \_\_\_\_\_

For Appropriate Handling: ✓

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
*RL*  
Robert D. Linder



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

OCT 19 1977

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

I fully concur with your comments to me on October 6 regarding the United States' goals and objectives in our current important aviation negotiations with Japan.

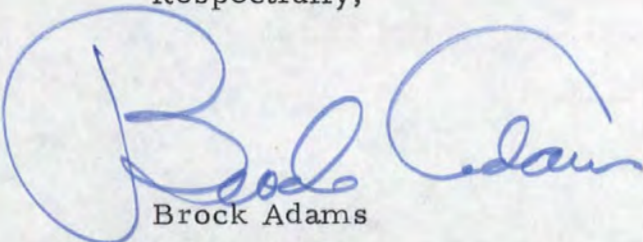
The Department of Transportation is committed to implementing a policy of low-fare competitive international air service in all areas of the world for the benefit of the consumers and the carriers. I want to assure you that we are devoting the staff resources which are needed to implement the Administration's policy.

In the Japanese negotiations, we support continued multiple designations, together with expansion of opportunities for both sides. While Japan is our second largest aviation partner, our opportunities for expansion have suffered severely due to the highest level of fares and rates in the world and the extreme limitations on charter services. The most pressing issue is the need for the competitive spur of charter transportation which thus far has had a minor impact on the U. S. -Japan market. Therefore, our key objective is to obtain a liberal charter agreement with Japan. In addition, we must resolve the landing slot problems in Japan because they have limited the operations of both scheduled and supplemental carriers.



The current round of negotiations is expected to conclude on October 20. We will keep you informed on our progress.

Respectfully,



Brock Adams

THE PRESIDENT HAS SEEN.  
THE WHITE HOUSE

WASHINGTON

October 24, 1977

MEMORANDUM FOR: THE PRESIDENT  
FROM: STU EIZENSTAT  
LYNN DAFT  
SUBJECT: Sugar Policy

Sh

Faced with the prospect of Senate passage of a joint resolution to override your decision of May 4 to not accept the ITC recommendation of a restrictive import quota on sugar, the USDA provided Senator Dole with the attached letter last Thursday, October 20th. They did so at the urging of Bob Strauss. In the letter, John White indicates that the Department will accelerate implementation of the de la Garza program (Sec. 902 of the Food and Agriculture Act of 1977), and will aim for implementation not later than November 8th. We had been planning for implementation by about December 7th. As a result of this assurance, Senator Dole withdrew his joint resolution.

The accelerated schedule will mean that protection of the domestic market -- whether through use of a higher tariff, a restrictive quota, or a combination of the two -- must occur about 1-month sooner than we had planned. We are working with the affected agencies to prepare an options memorandum which we will have to you by the end of the week.

The most fortunate part of the situation is that the international sugar agreement recently concluded in Geneva should, assuming it is ratified, cause market prices to rise to the point that the de la Garza program can be suspended by the third quarter of next year.

Electrostatic Copy Made  
for Preservation Purposes



DEPARTMENT OF AGRICULTURE

OFFICE OF THE DEPUTY SECRETARY

WASHINGTON, D.C. 20250

October 20, 1977

Honorable Robert J. Dole  
United States Senate  
Washington, D. C. 20510

Dear Senator Dole:

You and many other members of the Senate have expressed your strong interest in the earliest possible implementation of the sugar price support provisions of the farm bill.

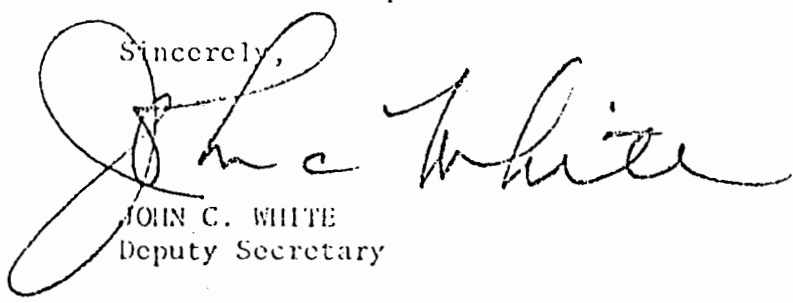
The Department's expedited schedule for implementation of the loan and purchase program required by the de la Garza amendment to the Food and Agriculture Act of 1977 envisioned publication of final regulations by December 7.

However, it is now our intention to waive certain procedural constraints generally required for less urgent matters. We believe we can advance our timetable even further. It is our intention to implement the aforementioned loan and purchase program not later than November 8, 1977.

For example, we will eliminate a period we had intended to use to hold public hearings on minimum wage rates and use other, faster methods to seek advice on setting minimum wages for sugar workers.

The President and Secretary Bergland are committed to a strong effort to bring about workable price relief for our sugar producers. To this end, I am pleased to state my personal commitment and that of the Secretary to implementation of this program at the earliest possible date.

Sincerely,



JOHN C. WHITE  
Deputy Secretary

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
X		LANCE <i>Jm</i>
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
X	BOURNE
X	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

: THE WHITE HOUSE  
WASHINGTON

10/24/77

Mr. President:

Eizenstat and Watson concur  
with McIntyre in recommending  
Option #1.

Peter Bourne recommends Option  
#2.

No response was received from  
NSC.

Rick

THE WHITE HOUSE  
WASHINGTON

October 24, 1977

Jim McIntyre

The attached was returned in the President's  
outbox today and is forwarded to you  
for appropriate handling.

Rick Hutcheson

cc: Stu Eizenstat  
Peter Bourne  
Zbig Brzezinski

RE: FUTURE BUDGET COMMITMENT FOR WORLD  
FOOD PROGRAM

### Analysis

The WFP secretariat has proposed a \$950 million level for 1978/80, a 27 percent increase in funding. At the current 25 percent share of total contributions, the U.S. portion would be \$238 million. State and Agriculture believe the proposed WFP total could exceed recipient government's absorptive capacity given their management constraints, and may cause WFP to lower its own programming standards. WFP's internal capacity to manage such a rapidly growing program is also questionable.

State/USDA's proposed \$880 million program would, they believe, permit more orderly growth while demonstrating continuing U.S. support for UN food aid focused on basic human needs. The U.S. proposed \$220 million share (25% of the WFP total) would be presented as a maximum dollar amount. Thus, if other countries decided on a higher total (we do not have sufficient voting power for a veto), the U.S. percentage share would decline. Because other donors will probably not wish to make up for the reduction in the U.S. share, the proposed approach has a reasonable chance of success in limiting WFP growth. The proposed increase would utilize P.L. 480 Title II tonnage, using approximately one-third of the Congress' recently mandated increase in Title II (the remaining two-thirds would go to U.S. voluntary-agency feeding programs.)

As a third alternative, an argument could be made for limiting total WFP funding to the level of the current biennium, \$750 million. The fact that WFP has not presented specific proposals for additional funding and the lack of any rigorous plan for management improvement would argue for continuing the current level.

### Recommendation

OMB concurs with the State/USDA proposal. The proposed dollar increase is small, and any U.S. effort to hold to the current level would encounter strong opposition from the developing countries and possibly from Congress.

### Options

1. ☒ \$220 million U.S. pledge towards a \$880 million WFP program (State, USDA, OMB)
2. ☐ \$238 million U.S. pledge towards a \$950 million WFP program (Likely World Food Program proposal, no agency supports)
3. ☐ \$188 million U.S. pledge towards a \$750 million WFP program (Current level, no agency supports)



THE PRESIDENT HAS SEEN,  
EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

OCT 21 1977

MEMORANDUM FOR: THE PRESIDENT  
FROM: James T. McIntyre, Jr. *James McIntyre*  
SUBJECT: Future Budget Commitment for World Food Program

In accordance with your procedures established to approve future international budget commitments, the Departments of State and Agriculture are requesting approval of a \$220 million U.S. contribution to the UN World Food Program (WFP) for calendar years 1979 and 1980 (~~See Tab A~~). They wish to pledge this amount at an October 24, 1977, meeting which will set a total WFP budget target for 1978/80. By announcing the U.S. pledge now, rather than at the official pledging session early next year, the U.S. delegation hopes to influence the selection of a slightly lower target for the two year period.

Background

Established at U.S. initiative in 1963, WFP provides food grants to needy people in developing countries through projects of their governments, including food for work, school and preschool child feeding and disaster relief. The program has grown rapidly and now exceeds on an annual basis the P.L. 480 Title II feeding programs of the U.S. voluntary agencies. The U.S. share of the program has fallen from 50% to 25%. The table below shows the relevant statistics for the past two biennia and alternatives for the 1979/80 period.

	1975/76	1977/78	(In millions of dollars)	
			1979/80 WFP Proposal	1979/80 State/USDA Proposal
Total WFP Budget	674	750	950	880
US Contribution	120	188	238	220
Commodity costs	95	155	197	182
Freight costs	22	30	37	34
Cash (for Admin)	3	3	4	4
US as a % of WFP total	(18%)	(25%)	(25%)	(25%)

Food and freight costs are financed under PL 480 Title II, and the cash through AID funds for voluntary contributions to international organizations and programs. (The low figure of 18% for the U.S. share in the 1975/76 biennium is explained by extraordinary Canadian and Arab contributions).



THE WHITE HOUSE

WASHINGTON

Date: October 21, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat *concur w/ OPT I*  
Jack Watson *opt I*  
Peter Bourne *attached - opt II*  
Zbig Brzezinski *no answer at home*

FOR INFORMATION:

The Vice President  
Frank Moore (Les Francis)

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/21/77 re Future Budget Commitment  
for World Food Program

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME:

DAY: IMMEDIATE TURNAROUND

DATE:

ACTION REQUESTED:

Other: ☐ Your comments

☒ STATE DEPT. REQUESTS DECISION MONDAY AM

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE  
WASHINGTON

10/23

8:30 AM

Bill Simon:

Peter Browne should be calling  
me around 12:30 today from  
Germany. If he has any problem  
I will call you. So pls hold  
this until then. OK?!

If you want to discuss  
in at home (768-3034).

Jimmy Till

THE WHITE HOUSE

WASHINGTON

October 22, 1977

MEMORANDUM

TO: Rick Hutcheson

FROM: Peter Bourne *for*

SUBJECT: McIntyre Memorandum dated 10/21/77 re Projected  
UN/WFP Budget Projection

My view is the OMB analysis does not take into consideration current world inflation rates and therefore may be underestimating the projected absorptive capacity of developing nations. Furthermore, the President's statement yesterday to increase grain exports does not appear consistent with option 1 which projects only a modest increase in WFP commitments. Therefore, I believe option 2 is the more appropriate decision for the President. This could be coupled with encouragement to Secretary Kurt Waldheim that improved management should take place as a condition of an increase in our assistance.

The high option 2 position is also consistent with the President's pledge to work through the U.N. and other multilateral institutions to resolve the problems of hunger, poverty and disease in the world.

A few concerns I have about the decision and process are as follows:

(1) There is no mention of what Congress feels about this issue. Concern about U.N. funding and agriculture policies has been expressed by Congress frequently in recent months. Congress is anxious to be consulted and I hope this issue has been discussed with some key members such as Congressmen Foley, Zablocki, and Senators Talmadge and Sparkman.

(2) No mention of AID was expressed in the memorandum. My own World Hunger Working Group is now looking at these and other world food policy issues involving all affected agencies and I am concerned that in the absence of assessments concerning future funding projections in other priority world food policy areas, we cannot effectively evaluate the merits of this particular issue.

Date: October 21, 1977

MEMORANDUM

## FOR ACTION:

Stu Eizenstat  
Jack Watson  
Peter Bourne  
Zbig Brzezinski

## FOR INFORMATION:

The Vice President  
Frank Moore (Les Francis)

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/21/77 re Future Budget Commitment  
for World Food Program

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME:

DAY: IMMEDIATE TURNAROUND

DATE:

## ACTION REQUESTED:

Other: ☐ Your comments

STATE DEPT. REQUESTS DECISION MONDAY AM

## STAFF RESPONSE:

☒ I concur.☐ No comment.

Please note other comments below:

*Congressional Liason*  
*Les Francis for*  
*Frank Moore*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

OCT 21 1977

MEMORANDUM FOR: THE PRESIDENT  
FROM: James T. McIntyre, Jr. (Signed) Jim McIntyre  
SUBJECT: Future Budget Commitment for World Food Program

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Background

Established at U.S. initiative in 1963, WFP provides food grants to needy people in developing countries through projects of their governments, including food for work, school and preschool child feeding and disaster relief. The program has grown rapidly and now exceeds on an annual basis the P.L. 480 Title II feeding programs of the U.S. voluntary agencies. The U.S. share of the program has fallen from 50% to 25%. The table below shows the relevant statistics for the past two biennia and alternatives for the 1979/80 period.

	1975/76	1977/78	(In millions of dollars) 1979/80	
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Food and freight costs are financed under PL 480 Title II, and the cash through AID funds for voluntary contributions to international organizations and programs. (The low figure of 18% for the U.S. share in the 1975/76 biennium is explained by extraordinary Canadian and Arab contributions).

## Analysis

The WFP secretariat has proposed a \$950 million level for 1978/80, a 27 percent increase in funding. At the current 25 percent share of total contributions, the U.S. portion would be \$238 million. State and Agriculture believe the proposed WFP total could exceed recipient government's absorptive capacity given their management constraints, and may cause WFP to lower its own programming standards. WFP's internal capacity to manage such a rapidly growing program is also questionable.

State/USDA's proposed \$880 million program would, they believe, permit more orderly growth while demonstrating continuing U.S. support for UN food aid focused on basic human needs. The U.S. proposed \$220 million share (25% of the WFP total) would be presented as a maximum dollar amount. Thus, if other countries decided on a higher total (we do not have sufficient voting power for a veto), the U.S. percentage share would decline. Because other donors will probably not wish to make up for the reduction in the U.S. share, the proposed approach has a reasonable chance of success in limiting WFP growth. The proposed increase would utilize P.L. 480 Title II tonnage, using approximately one-third of the Congress' recently mandated increase in Title II (the remaining two-thirds would go to U.S. voluntary-agency feeding programs.)

As a third alternative, an argument could be made for limiting total WFP funding to the level of the current biennium, \$750 million. The fact that WFP has not presented specific proposals for additional funding and the lack of any rigorous plan for management improvement would argue for continuing the current level.

## Recommendation

OMB concurs with the State/USDA proposal. The proposed dollar increase is small, and any U.S. effort to hold to the current level would encounter strong opposition from the developing countries and possibly from Congress.

## Options

1. \_\_\_\_\_ \$220 million U.S. pledge towards a \$880 million WFP program (State, USDA, OMB)
2. \_\_\_\_\_ \$238 million U.S. pledge towards a \$950 million WFP program (Likely World Food Program proposal, no agency supports)
3. \_\_\_\_\_ \$188 million U.S. pledge towards a \$750 million WFP program (Current level, no agency supports)

backup for  
non decision

MEMORANDUM FOR HONORABLE JAMES T. MCINTYRE, JR.  
Acting Director, Office of Management  
and Budget

SUBJECT: 1979/1980 Request for the UN/FAO World  
Food Program

The purpose of this memorandum is to ask that you seek the President's approval for a U.S. commitment of \$220 million to the UN/FAO World Food Program (WFP) for calendar years 1979/1980. The WFP is the principal source of food aid within the United Nations system. It was established with strong U.S. endorsement and we have been its major contributor since its initiation in 1963. Its worldwide assistance is for economic development projects (60 percent), direct feeding as a nutritional supplement (30 percent), and disaster relief (10 percent). The U.S. pledge for 1977/1978 is \$188 million.

Of the proposed \$220 million, \$216 million would be financed under Public Law 480. No additional P.L. 480 budgetary expenditures would be incurred since virtually all of our assistance through WFP is covered by the annual minimum tonnage mandated for the P.L. 480 Title II donation program. Under the International Development and Food Assistance Act of 1977, the mandatory minimum tonnage for Title II has been raised from 1.3 million tons to 1.6 million tons, of which 1.3 million tons must go through WFP and the voluntary agencies. We believe the distribution within the sub-minimum of approximately two-thirds to the voluntary agencies and one-third to WFP is reasonable and should be continued in 1979/1980.

The remaining amount -- \$4 million in cash for WFP's administrative expenses -- will fall within the Foreign Assistance Act and represents a \$1 million increase for the two-year period.



WFP programs are aimed at the poorest segments of developing country populations. About 75 percent now goes to the poorest countries, compared with 50 percent in 1972. WFP activities are precisely those that we have in mind when we call for multilateral institutions to focus on the basic human needs of the developing world. Developing countries long have viewed WFP as one of the major programs for development assistance, and this role was further enhanced by the 1974 World Food Conference. We regard WFP, which consistently has had enthusiastic support in the Congress, as a prime vehicle for our multilateral development assistance efforts.

At its October 24-November 4 meeting, the Program's governing body must decide on a target for its calendar years 1979/1980 biennium. The Secretariat is repeating its proposal, first made last spring, that the target be \$950 million (compared to \$750 million for the 1977/1978 biennium). The United States (and several other major donors) objected to such a large increase at the time.

We believe that a target of \$950 million is too high, but that a target of \$880 million can be attained realistically and used effectively. A decision to pledge \$220 million:

- would be consistent with the President's desire to increase food aid and with Congressional intent that we utilize WFP as a major vehicle for food aid distribution;
- would enable us to maintain an influential voice in the major multilateral forum discussing food aid policy; and
- would in the short term, strengthen us tactically in our efforts to hold WFP operations to a sound, realistic level.

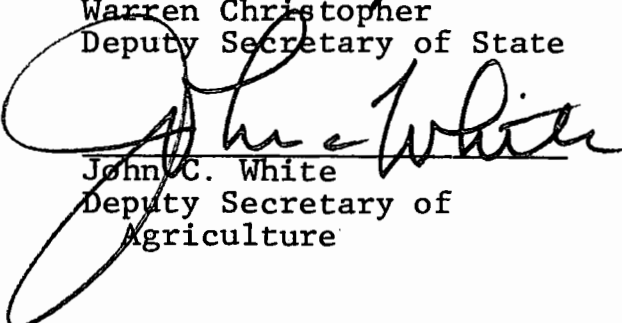
At the October meeting we plan to indicate that, while we are prepared to raise significantly the U.S. contribution to WFP, we cannot support the \$950 million for these reasons:

- There is evidence from recent WFP project evaluations that a number of very poor developing countries have problems providing the management expertise and additional financial resources necessary to absorb significant increases in food aid.
- Although we believe the Program should grow, we want to ensure that projects are selected on the basis of development or nutritional impact and not simply resource availability.
- WFP will need time to consider and implement recommendations that its projects be coordinated more closely with those of other development assistance donors (i.e., through joint planning with UNDP, the FAO, and the financial institutions).

However, as WFP begins to coordinate its food aid more closely with the development aid of other major donors, and if new ways are found to help the developing countries absorb higher levels of WFP assistance, we may wish authority, perhaps in FY 1980, to increase our pledge.

  
\_\_\_\_\_  
Warren Christopher  
Deputy Secretary of State

10-7-77  
Date

  
\_\_\_\_\_  
John C. White  
Deputy Secretary of  
Agriculture

9-21-77  
Date

Attachments:

1. U.S. Pledge Composite
2. WFP Targets and U.S. Pledges
3. Concentration of Commitments on LDCs and MSAs
4. Development Projects by Region and Type
5. Development Projects by Region and Stage
6. Emergency Operations by Region and Stage
7. Pledges Announced for the Period 1977-78
8. Overall Situation of WFP Resources 1963-1976
9. WFP Resources and Expenditures Projected  
Until the End of Calendar Year 1978



U.S. PLEDGE COMPOSITE

A. Total Pledge

	<u>Million Dollars</u>
Food	182
Ocean Transportation	34
Cash	<u>4</u>
Total	220

B. Estimated Commodity Composition

	<u>Metric Tons</u>	<u>Million Dollars</u>
Wheat/Wheat Products <u>a/</u>	680,000	100.0
Corn/Sorghum and Products <u>a/</u>	140,000	22.0
Rice	60,000	15.6
Edible Oil	20,000	10.0
Nonfat Dry Milk	50,000	17.4
Dollar Reserve	<u>          </u>	<u>17.0</u>
	950,000	182.0

a/ Grain equivalent



WFP TARGETS AND U.S. PLEDGES  
1963 through 1978

<u>Pledge No.</u>	<u>Calendar Years</u>	<u>WFP Target Million Dollars</u>	<u>U. S. Pledge</u>	
			<u>Million Dollars</u>	<u>% of Target</u>
		<u>a/</u>	<u>a/</u>	<u>a/</u>
1	1963-65 (3 yrs)	100 ( 95)	50 ( 44)	50 (47)
2	1966-68 (3 yrs)	275 (187)	130 ( 93)	47 (50)
3	1969-70 (2 yrs)	200 (320)	100 ( 98)	50 (31)
4	1971-72 (2 yrs)	300 (243)	125 (119)	42 (49)
5	1973-74 (2 yrs)	340 (361)	136 (134)	40 (37)
6	1975-76 (2 yrs)	440 (674)	140 (120)	32 (27)
7	1977-78 (2 yrs)	750	188	25
8	1979-80 (2 yrs)	950 <u>b/</u>	220 <u>c/</u>	(23) <u>b/</u>

a/ Actual contributions

b/ If the \$950 million target, as proposed by WFP secretariat, is approved despite U.S. opposition, the proposed U.S. contribution would comprise 23 percent of the total.

c/ Proposed by USDA and A.I.D.





Concentration of Commitments on LDC's and MSA's  
and other Countries (1972 through May 1977)

	Total WFP commitments for new development projects		Commitments for LDCs		Commitments for MSAs		Commitments for specific hardship countries not included under LDCs or MSAs		Commitments for other developing countries	
	million \$	%	million \$	%	million \$	%	million \$	%	million \$	%
1972	105.2	100	9.6	9	42.5	40	-	-	53.1	50
1973	125.1	100	12.5	10	51.2	41	2.2 <sup>3/</sup>	2	58.2	47
1974	104.6	100	47.4	45	18.6	18	6.0 <sup>4/</sup>	6	32.6	31
1975	367.6	100	103.3	28	170.5	46	3.3 <sup>5/</sup>	1	90.5	25
1976	601.0	100	227.7	38	146.8	24	59.4 <sup>6/</sup>	9	167.1	28
1977 up to 3rd CFA	132.2	100	59.3	45	36.4	28	2.7 <sup>7/</sup>	2	33.8	25

Concentration of commitments on LDC, MSA countries and other countries :  
The Programme continued in its efforts to concentrate food aid to the extent feasible on countries of recognized priority, that is primarily countries formally classified as least-developed (LDC) and most seriously affected (MSA). Special attention was also given to a number of other countries, not so classified but considered to be temporarily in special need of international food assistance. The above table shows the increase in both the relative and absolute share of WFP aid to these priority countries from 1972, the year immediately preceding the food crisis, to 1977.

- 1/ A number of countries are classified both as LDC and MSA countries ; these are counted only under LDC in the above table.
- 2/ The category of LDC was established in 1968, the category of MSA in 1973; both categories have undergone changes and revisions, i.e. countries were added to the list in due course, while in a few cases other countries were dropped out; the above table is based on the current classification, i.e. Bangladesh, for instance, is counted as LDC throughout, although it was formally included in the LDC category only in 1976.
- 3/ Nicaragua.
- 4/ Angola, Vietnam, Cyprus
- 5/ Vietnam, Portugal
- 6/ Vietnam, Comoro Islands, Cyprus, Philippines
- 7/ Angola, Lebanon



**Development Projects by Region and Type (Total WFP Cost in US\$ 000's)**  
**Through March 31, 1977**

Class No. - Title	Latin America Caribbean	North Africa Near East	Approved Projects						
			West Africa	Europe East Africa	Asia	Total	* % Cost	Under Technical scrutiny	
								% Total	% Cost
01-Mothers, pre-schools	60,130	2,467	15,163	24,787	138,357	240,904	9	43,364	23
02-Elementary schools	122,754	211,154	35,967	73,494	7,887	451,256	16	32,577	17
03-Secondary schools	3,985	5,391	31,766	17,676	8,814	67,632	2	-	-
04-Vocational, pre-voc. inst.	3,326	17,602	3,614	30,261	15,578	70,381	3	548	-
05-Universities, prof. inst.	2,191	14,099	7,053	8,545	15,679	47,567	2	501	-
06-Literacy, adult educ.	2,968	-	1,066	-	-	4,034	-	-	-
07-Hospitals, conval.	8,696	4,408	28,000	5,591	1,731	48,426	2	22,463	12
08-Public Health	-	-	-	1,720	691	2,411	-	-	-
09-Housing, public amenities	101	22,386	4,570	9,093	15,222	51,372	2	3,381	2
10-Transport, power works	8,350	28,058	6,358	1,004	55,138	98,908	4	10,065	5
11-Community development	60,843	18,341	51,665	15,724	63,578	210,151	8	7,442	4
12-Land dev. and improv.	3,135	244,309	22,082	41,875	251,184	562,585	20	25,419	12
13-Land settlement	6,733	103,168	24,393	26,107	51,791	212,192	8	15,683	8
14-Refugee assistance	-	3,027	5,517	23,385	3,827	35,756	1	-	-
15-Crop prod. and diversif.	16,447	76,790	28,174	17,284	24,986	163,681	6	2,973	2
16-Animal prod., dairy dev.	9,954	12,851	5,428	24,078	208,034	260,345	9	17,081	9
17-Forestry	8,132	68,207	11,340	13,969	43,814	145,462	5	11,127	6
18-Fishery	-	-	9,977	1,549	576	12,102	-	-	-
19-Industrial, mining	-	2,394	4,913	7,548	2,730	17,585	1	-	-
20-Food Res. price stab.	-	-	2,769	65,541	-	68,310	2	-	-
<b>T O T A L</b>	<b>317,745</b>	<b>834,652</b>	<b>299,815</b>	<b>409,231</b>	<b>909,617</b>	<b>2,771,000</b>	<b>100*</b>	<b>192,624</b>	<b>100</b>

\* Excluding emergencies



Development Projects by Region and Stage 1/  
as of March 31, 1977

	Shipments and distribution completed	Shipments completed distr. still in progress	Shipments in progress	Agreements signed letter readiness awaited	Approved agreements not signed	Total all approved projects	Circulated for techn. scrutiny	Other projects 2/ under consideration
<u>LATIN AMERICA and CARIBBEAN</u> No. of projects Total WFP cost \$ No. of countries involved	65 52,334,900 22	1 1,216,300 1	42 211,583,000 18	1 7,620,000 1	6 44,990,800 6	115 317,745,000 25	7 33,363,700 5	18 46,944,500 16
<u>NORTH AFRICA and NEAR EAST</u> No. of projects Total WFP cost \$ No. of countries involved	95 247,027,300 11	- - -	46 515,759,900 11	3 34,428,000 3	4 37,436,400 3	148 834,651,600 11	6 40,443,500 5	- - -
<u>WEST AFRICA</u> No. of projects Total WFP cost \$ No. of countries involved	101 102,819,900 24	8 10,764,900 7	47 149,112,900 21	6 18,481,000 6	9 18,636,300 9	171 299,815,000 26	5 9,749,500 5	7 8,191,500 5
<u>EUROPE and EASTERN AFRICA</u> No. of projects Total WFP cost \$ No. of countries involved	85 102,784,500 17	4 4,101,400 4	49 296,134,600 15	1 4,647,700 1	2 1,562,300 2	141 409,230,500 20	4 24,853,800 3	6 28,769,900 5
<u>ASIA</u> No. of projects Total WFP cost \$ No. of countries involved	146 150,445,500 17	11 52,079,200 4	80 619,713,100 14	1 24,890,000 1	9 62,489,400 5	247 909,617,200 22	10 84,213,700 8	9 50,427,700 4
<u>TOTAL</u> No. of projects Total WFP cost \$ No. of countries involved	492 655,412,500 91	24 68,161,800 16	264 1,792,303,500 4/ 79	12 90,066,700 12	30 165,115,200 25	822 2,771,059,300 3/ 104	32 192,624,200 26	40 134,333,600 30

1/ Original projects and expansions counted separately

2/ Cost estimates for 34 additional project requests were not available

3/ Excludes \$64,200 for projects signed, but cancelled before they became operational

4/ All open projects regardless of state of completion.



6

Emergency Operations by Region and Stage 1/

	Completed operations 1963 - 1977	Operations in progress as of March 31, 1977	T o t a l
<u>LATIN AMERICA and CARIBBEAN</u>			
Number of operations	30	1	31
Total cost to WFP	\$12,097,800	\$314,000	\$12,411,800
Number of countries involved	19	1	19
<u>NORTH AFRICA and NEAR EAST</u>			
Number of operations	44	4	48
Total cost to WFP	\$35,875,800	\$15,880,900	\$51,756,700
Number of countries involved	10	3	11
<u>WESTERN AFRICA</u>			
Number of operations	48	8	56
Total cost to WFP	\$27,652,400	\$13,387,600	\$41,040,000
Number of countries involved	21	6	22
<u>EUROPE and EASTERN AFRICA</u>			
Number of operations	45	8	53
Total cost to WFP	\$35,993,200	\$18,334,400	\$54,327,600
Number of countries involved	18	7	20
<u>ASIA and FAR EAST</u>			
Number of operations	48	4	52
Total cost to WFP	\$69,384,800	\$21,453,500	\$90,838,300
Number of countries involved	18	4	18
<u>T O T A L</u>			
Number of operations	215	25	240
Total cost to WFP	\$181,004,000	\$69,370,400	\$250,374,400
Number of countries involved	86	21	90

1/ Original phase plus any subsequent phases counted as one operation





7

PLEDGES ANNOUNCED FOR THE PERIOD 1977-78

Position as at 31 May 1977

(in U.S. dollars)

<u>Contributing country</u>	<u>Commodities</u>	<u>Cash</u>	<u>Services</u>	<u>Total</u>
Afghanistan	-	2 200	-	2 200
Australia	5 150 853	2 575 428	-	7 726 281
Austria	3 375 000	375 000	-	3 750 000
Bangladesh	50 000	-	-	50 000
Barbados	-	6 500	-	6 500
Belgium	1 191 666	595 832	-	1 787 498
Bolivia	-	6 000	-	6 000
Botswana	-	11 500	-	11 500
Canada	130 000 000	20 000 000	-	150 000 000
Chile	-	45 000	-	45 000
Colombia	250 000	-	-	250 000
Congo	-	6 726	-	6 726
Cuba	1 800 000	-	-	1 800 000
Cyprus	-	242	-	242
Denmark	20 000 000	10 000 000	-	30 000 000
Ecuador	-	50 000	-	50 000
Egypt, Arab Rep.	350 000	-	-	350 000
Ethiopia	-	9 735	-	9 735
Fiji	-	2 000	-	2 000
Finland	1 779 259	115 800	-	1 895 059
Gambia	-	5 000	-	5 000
Germany, Fed. Rep. of	17 796 610	8 874 293	-	26 670 903
Ghana	40 250	-	-	40 250
Greece	180 000	-	-	180 000
Guyana	-	3 921	-	3 921
Honduras	-	10 000	-	10 000
Hungary	300 000	-	-	300 000
Iceland	-	12 000	-	12 000
India	666 667	333 333	-	1 000 000
Indonesia	200 000	-	-	200 000
Iran	-	66 000	-	66 000
Ireland	1 082 620	541 311	-	1 623 931
Israel	10 000	-	-	10 000
Italy	-	677 966	-	677 966
Japan	5 000 000	2 500 000	-	7 500 000
Jordan	-	3 049	-	3 049
Korea, Rep. of	-	20 000	-	20 000
Kuwait	-	400 000	-	400 000
Lao	-	1 000	-	1 000
Lesotho	-	700	-	700
Libya	-	50 000	-	50 000
Malawi	-	4 444	-	4 444
Malaysia	12 048	6 024	-	18 072
Malta	-	1 750	-	1 750
Mauritius	14 400	-	-	14 400
Morocco	-	22 222	-	22 222
Nepal	-	5 000	-	5 000

<u>Contributing country</u>	<u>Commodities</u>	<u>Cash</u>	<u>Services</u>	<u>Total</u>
Netherlands	23 848 238	11 824 751	-	35 672 989
New Zealand	897 435	448 718	-	1 346 153
Nicaragua	-	10 670	-	10 670
Niger	-	8 032	-	8 032
Nigeria	-	19 355	-	19 355
Norway	21 252 372	8 159 392	-	29 411 764
Oman	-	6 000	-	6 000
Pakistan	400 000	-	-	400 000
Philippines	-	94 594	-	94 594
Saudi Arabia	-	50 000 000	-	50 000 000
Senegal	-	16 129	-	16 129
Sierra Leone	-	3 448	-	3 448
Singapore	-	2 000	-	2 000
Somalia	-	2 500	-	2 500
Spain	-	400 000	-	400 000
Sri Lanka	174 534	-	-	174 534
Sudan	50 301	-	-	50 301
Sweden	14 263 920	6 559 878	-	20 823 798
Switzerland	1 190 586	591 737	-	1 782 323
Syria	-	51 282	-	51 282
Tanzania, United Rep.of	42 117	-	-	42 117
Thailand	40 000	-	-	40 000
Togo	-	12 096	-	12 096
Trinidad and Tobago	-	2 083	-	2 083
Tunisia	-	50 000	-	50 000
Turkey	180 000	-	-	180 000
United Kingdom	4 928 776	2 464 386	-	7 393 162
United Arab Emirates	-	200 000	-	200 000
United States of America <sup>1/</sup>	155 000 000	3 000 000	30 000 000 <sup>2/</sup>	188 000 000
Yemen Arab Rep.	-	1 000	-	1 000
Yugoslavia	360 000	-	-	360 000
<b>Total:</b>	<b>411 877 652</b>	<b>131 268 027</b>	<b>30 000 000</b>	<b>573 145 679*</b>

<sup>1/</sup> The U.S. pledge is subject to the availability of commodities, and to the condition that the U.S. contribution cannot exceed approximately 25 percent of the total contributions of all governments.

<sup>2/</sup> Furthermore, the United States will provide shipping services to transport one half of the commodities provided by it to the World Food Programme.

\* The Secretariat feels confident that an additional EEC pledge plus supplemental pledges by other donors (including Canada) will put 1977/1978 pledges over the target. WFP has not indicated who the other donors are.



## OVERALL SITUATION OF WFP RESOURCES 1963-1976

Position as at 31 December 1976

(in millions of U.S. dollars)

RESOURCES	Total	Commodities	Cash and Services
Announced pledges: 1st - 5th period	1 195	890	305
Announced pledges: 6th period	674	487	187
Sub-total:	1 869	1 377	492
Food Aid Convention 1968/69 - 1975/76 <sup>1/</sup>	155	125	30
Directed donations for major emergencies	1	-	1
Emergency Food Reserve	12	10	2
Recipient government contributions	1	-	1
towards local operating costs			
Miscellaneous income to 31.12.1976	39	-	39
Adjustments <sup>2/</sup>	-	19	(19)
Total:	2 077	1 531	546
NET COMMITMENTS			
Economic and social development projects	2 777	2 207	570
Emergency operations	250	192	58
Administrative budget costs	58	-	58
Transferred to Insurance Fund since inception	5	-	5
Fixed level of "Reserve Fund"	1	-	1
Total:	3 091	2 399	692
EXPENDITURE <sup>3/</sup>			
Economic and social development projects	1 525	1 218	307
Emergency operations	205	154	51
Administrative budget costs	58	-	58
Transferred to Insurance Fund since inception	5	-	5
Total:	1 793	1 372	421
BALANCES			
RESOURCES - EXPENDITURE	284	159	125
RESOURCES - COMMITMENTS	(1 014)*	(868)	(146)

<sup>1/</sup> The financial period under the Food Aid Convention is from 1 July to 30 June.

<sup>2/</sup> The adjustments relate to the value of the commodities purchased in cash and reduced by value of the losses settled in cash.

<sup>3/</sup> Expenditure including outstanding obligations.

\* We feel that given the 3-5 year term of the projects, this level of carryover is not unreasonable. There is provision to terminate projects prematurely should resources not be available.



## WFP RESOURCES AND EXPENDITURE PROJECTED UNTIL THE END OF C.Y. 1978

Position as at 31 May 1977

(in millions of U.S. dollars)

	<u>A c t u a l</u>				<u>F o r e c a s t</u>	
	<u>1963-74</u>	<u>1975</u>	<u>1976</u>	<u>1963-76</u>	<u>1977</u>	<u>1978</u>
BROUGHT FORWARD	-	160.1	155.5	-	284.9	219.1
Pledges announced 1963-76	1 209.3	293.7	374.2	1 877.2	3.7	-
Pledges announced 1977-78	-	-	-	-	286.6	286.5
Additional pledges foreseen	-	-	-	-	88.4	88.5
FAC contributions announced	99.0	21.5	35.0	155.5	26.1	8.0
FAC contributions foreseen	-	-	-	-	3.1	40.4
International emergency food reserve	-	3.6	8.5	12.1	5.1	-
International emergency food reserve (contributions foreseen)	-	-	-	-	13.5	-
Directed donations	1.2	-	-	1.2	-	-
Government contributions towards local operating costs	0.6	0.2	0.1	0.9	-	-
Overhead earnings on bilateral aid	-	0.1	0.2	0.3	0.7	-
Other cash income	23.3	7.5	7.9	38.7	5.0	5.0
Lapses	(8.0)	-	-	(8.0)	-	-
<b>Total resources:</b>	<b>1 325.4</b>	<b>486.7</b>	<b>581.4</b>	<b>2 077.9</b>	<b>717.1</b>	<b>647.4</b>
<u>D i s b u r s e m e n t s</u>						
Emergencies	141.1	28.8	33.9	203.8	45.0	45.0
Administrative expenses, HQ	41.2	7.5	9.4	58.1	11.3	13.0
<b>Sub-total:</b>	<b>182.3</b>	<b>36.3</b>	<b>43.3</b>	<b>261.9</b>	<b>56.3</b>	<b>58.0</b>
Economic and social development projects	<u>Commitments</u>					
1963-74	1 792.9	980.9	199.4	1 20.7	1 301.0	172.7
1975	377.5	-	94.2	84.3	178.5	101.0
1976	606.4	-	-	46.7	46.7	142.0
<b>Sub-total:</b>	<b>2 776.8</b>	<b>980.9</b>	<b>293.6</b>	<b>251.7</b>	<b>1 526.2</b>	<b>415.7</b>
1977	300.0	-	-	-	-	24.0
1978	300.0	-	-	-	-	24.0
<b>Sub-total:</b>	<b>3 376.8</b>	<b>980.9</b>	<b>293.6</b>	<b>251.7</b>	<b>1 526.2</b>	<b>439.7</b>
<b>Total disbursements:</b>	<b>1 163.2</b>	<b>329.9</b>	<b>295.0</b>	<b>1 788.1</b>	<b>496.0</b>	<b>496.0</b>
Balance:	162.2	156.8	286.4	289.8	221.1	151.5
Transferred to "Insurance Fund":	2.1	1.3	1.5	4.9	2.0	1.0
<b>CARRY FORWARD:</b>	<b>160.1</b>	<b>155.5</b>	<b>284.9</b>	<b>284.9</b>	<b>219.1</b>	<b>150.5</b>
Fixed level of "Reserve Fund":	1.0	1.0	1.0	1.0	1.0	1.0


THE PRESIDENT HAS SEEN.



THE VICE PRESIDENT  
WASHINGTON

October 24, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: THE VICE PRESIDENT   
SUBJECT: TAX REFORM

I believe it is possible to develop a limited tax reform program for which we can get substantial Congressional and public support. It is much less comprehensive than we have discussed to date. Yet I think it honors your commitments to tax reform. Further, it represents a substantial reform of the tax system, an opportunity to tie tax relief and tax reform together in an appropriate manner, and an opportunity to work cooperatively with the Congress to our mutual advantage.

I believe the following items deserve consideration:

1. Elimination and reduction of certain itemized deductions

I was surprised by the acceptance of the proposal to eliminate the deduction of state and local sales taxes and gasoline taxes and of the proposal to reduce the deductible amounts for medical and casualty losses. These proposals would pick up \$5.9 billion by 1981.

2. Repeal or reduction of certain business expense deductions

While there is substantial opposition, I believe we should support the repeal or reduction of certain business deductions for those who lead the good life at the taxpayer's expense. This could include elimination of private club dues and a provision that only 50% of the entertainment expenses be permitted. The hotel and restaurant workers and others will scream bloody murder, but I think your emphasis on this issue during the campaign and the public support for it justifies our going ahead. The change will yield \$240 million in 1981.

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3. Taxable Bond Option

There seems to be general support for giving state and local governments the option of choosing between the issuance of conventional tax exempt municipal bonds and taxable bonds which will receive a subsidy from the U.S. Treasury for 35-40% of the interest cost. This will yield \$.3 billion in 1981.

4. Deferral

Repeal or substantial reduction of the deferral of taxation on the income of U.S.-controlled foreign subsidiaries should be a prime target of the reform effort. Deferral not only costs us \$1 billion in revenues, but also provides an incentive to export jobs to less developed countries and others that have exceedingly low corporate tax rates. Repeal would be opposed by the multinational corporations and by the less developed countries, and it would be strongly opposed by many in the Congress, including Al Ullman.

However, this is an instance in which I believe the labor movement has a strong case based on justice, because, in fact, the present deferral provisions encourage the exportation of U.S. jobs. At a time when we are urging moderation against protectionist forces, it should strengthen our case if we remove this incentive which now mitigates against U.S. employment.

5. DISC

Repeal or reduction makes sense, would be supported by many in Congress, but would also be criticized by the business community in view of our widening balance of payments deficit. It can be argued that retention of DISC in some form also provides a bargaining chip useful in dealing with other nations, particularly the Europeans, which directly or indirectly subsidize their exports. As you know, the European Common Market has a value added tax which we must pay when we send products to Europe, but is rebated when European businesses send products to the U.S.



Some people argue that DISC is the only thing that we have to bargain with in seeking some amelioration from the Europeans. We could make the case for some reduction in DISC, possibly reducing the deferred profits to 25%, rather than the current 50%. This would pick up something more than \$800 million. This move will be opposed by the business community and by the major exporters.

I don't deal here with the issue of recapture of deferred profits.

6. Bad Debt Deduction for Financial Institutions

There is a belief by some that we might be able to reduce the allowable deduction for bad debt by commercial banks and savings and loan associations. There is now an arbitrary deduction of about 40% for savings and loans, commercial banks and credit unions, which I understand is far in excess of their actual bad debt experience. We might be able to reduce this subsidy say, to 30%. The 1981 yield is \$264 million. It will be bitterly opposed by the lending institutions.

7. Real Estate Depreciation

There is some support for a change in the rules of depreciation for real estate, but it would have to be very carefully crafted so that it does not have a depressing effect on the construction of new low and middle income housing. Larry Woodworth says such a provision could be developed and consideration should be given to that option. This would yield \$500 million by 1981.

8. Capital Gains

This is the most difficult matter to judge, in my opinion, because tax reformers see it as the major ingredient of tax reform, and it is a substantial revenue raiser, providing the funds we need to make other changes, such as a reduction of personal income taxes, particularly at the upper income brackets. On the other hand, the business community has a profound symbolic attachment to capital gains, and however we seek to shape our proposal, I believe it will be seen as a major assault by them on risk investments.

A possible compromise would be to exempt closely held businesses and farms and homes, and to reduce the percentage of exempted capital gains from taxation from the present 50% say, to about 1/3, thereby not eliminating capital gains, but reducing it some, making it easier to repeal outright at some later date.

Today, the maximum effective rate on capital gains earnings is approximately 40%. If we adjust the maximum tax rate on unearned income of 70% down to 60%, and reduce the capital gains preference as described above, the 40% maximum tax rate would be continued. Therefore, while the capital gains preference would be reduced, the effective tax rate would remain approximately the same on capital gains. The pickup by 1981 would be \$3.4 billion.

If, however, we reduce the personal rate on unearned income to 60%, without reducing the capital gains preference, it will result in a substantial reduction in the capital gains tax, since that tax is geared to the individual tax rate.

The history of removing loopholes suggests that, as the value of a preference is reduced, it becomes easier to eliminate it later on. Whether or not to include reduction of any form of capital gains is probably the most difficult of all considerations.

Of all the things we could do to instill business confidence--if it's instillable--none would be better than leaving the capital gains alone.

#### 9. Withholding on Interest Payments

One of the more indefensible forms of tax avoidance is the nonpayment of income tax on interest earned. I think that up to 25% of this interest income goes illegally unreported. Withholding would yield \$2.5 billion in 1981. The opposition to a change in this provision by the lending agencies would be truly horrible. Kennedy proposed this in 1961, and caused an absolute riot on the Hill. Russell tried to propose this a few years ago and failed.

Peter Hart, the pollster, told us that the popularity of your reform efforts is tied to reducing or eliminating preferences for the very wealthy and, if instead, we are picking up substantial revenues from small depositors in savings and loans and banks, he believes the reaction would be horrendous. I strongly recommend against its inclusion.

10. Capital Gains at Death

As you know, recently there have been major amendments to the law, preventing the traditional practice of adjusting the basis of an asset to the value on the date of death, which permitted enormous gains to entirely escape taxation. Now the original basis at acquisition is held until final sale, picking up substantial revenues in the coming years. If we were now to tax capital gains at death, it would be very controversial and would be seen as jeopardizing the ownership of businesses and farms and homes and other investments and could be seen as an assault on the middle class desire to pass something on to their children.

Moreover, it could be seen as anti-competitive because businesses might be sold to larger corporations to pay the tax.

If we required payment of capital gains taxes at death, but exempted farms, homes and closely held businesses, we would pick up approximately \$400 million by 1981.

There is strong opposition to this change on the Hill. Some, like Al Ullman, feel that the reaction might be so strong that it could actually lead to a repeal of the progress made in the last tax bill. I would argue against its inclusion.

11. Percentage Depletion for Hard Minerals

I find there is no support for the phasing out of the percentage depletion for hard minerals, especially since copper and steel are in a depressed situation. It might be viewed as anti-western and the relative revenue pickup is small. It is suggested that we might put a cap on the percentage allowed say, of 10% rather than the 15% generally allowed, but the pickup would be very

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small and the reaction, I think, quite severe. I would recommend against it, but I must also say that there is a lot of iron ore in Minnesota.

If we adopt the repeal of the percentage depletion phased in over five years, it would pick up about \$200 million in 1981. If we put a cap of 10% on percentage depletion, it would pick up about \$80 million.

12. A cap on the deductibility of personal interest

As you know, a suggestion has been made that a cap of, say \$10,000, should be placed on the deductibility on personal interest (e.g., mortgages and consumer loans). This would yield only about \$28 million, an infinitesimal amount and, I believe, open up the charge, albeit an inaccurate one, that this is the beginning of an effort to eliminate deductibility of interest paid on home purchases and other consumer credit. I recommend that we not include it in this tax package.

Simplification

I think when most Americans think of tax reform they are focusing on simplification. We should take a good look at Joe Pechman's idea of having a different and preferable rate table for Americans who file the short form.

Tax Relief

It is generally agreed by the Congressional liberals that the present 10% investment tax credit should be made permanent. Further, under certain circumstances, the ITC limit should be increased from 50 to 90% of tax liability, and that it should be expanded to include new structures and the rehabilitation of old structures. There does not seem to be much support for allowing the ITC to increase above 10%. We might consider putting some portion of the money proposed for this increase into corporate rate reductions.

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There is a question of whether we have both corporate rate reductions and some step toward corporate integration. I don't think this can be addressed until we know what we are going to do on the form and the size of the tax relief package. Ullman and Long strongly favor corporate integration. Most in the business community favor the rate reduction.

The general question of tax relief is not addressed in this memo because I believe we must first determine the degree of stimulus the economy requires. Also, the inflation rate will affect what portion of any relief should come in the forms of tax relief, jobs and other public expenditures.

### Conclusion

A comprehensive tax reform package could become a major domestic issue and, unfortunately, one on which we seem to have very little prospect of winning. Joe Pechman was stunned by the reaction of the traditional tax reform proponents. He indicated he tried very hard to persuade Congressman Abner Mikva of the merits of a comprehensive approach, but was unable to do so.

Our major focus in the next year should be on the economy. Reducing unemployment, holding down inflation, and sustaining healthy growth is our first priority. With the Panama Canal, welfare reform, SALT and many other items, we are proposing all the Congress can handle.

A limited program such as the one outlined above should offer the possibility of keeping our commitments, making some progress on tax reform and avoiding a dangerous political situation.

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE  
WASHINGTON

October 24, 1977

Frank Moore  
Bob Lipshutz

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

cc: Zbig Brzezinski

RE: MARINE PRIVATE FIRST CLASS  
WILSON -- JAPAN

To Bob  
J

THE WHITE HOUSE  
WASHINGTON

October 23, 1977

TO: The President

FROM: Bob Lyssitzky

Administratively

Confidential

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Sunday, October 23, 1977

TO: The President  
FROM: Bob Fiskshutz pf

Per your request I am investigating the case which involves Marine Private First Class Wilson of Auburn, Nebraska, the accused serviceman in whom Senator Carl Curtis has expressed an interest.

Since learning about this matter late yesterday I have ascertained the following facts, which appear to be accurate:

(1) Wilson has been on duty in Japan and currently is under indictment by a Japanese court on charge of smuggling a substantial quantity of marijuana into Japan.

(2) Four packages of same were mailed to him from the United States via U. S. channels and were discovered by our own authorities.

(3) Wilson has made four written statements about the matter, to American and Japanese authorities. However, I do not yet have the detail of these statements nor the circumstances under which he made them.



(4) After being indicted he apparently forged papers which permitted him to return to the States, and he now is at Camp Lejeune - not in physical custody.

(5) Under the "Status of Forces Agreement" between us and Japan, we are under an obligation to permit the Japanese courts to have first option of trying our servicemen who are charged with this particular criminal offense and "not to impede their doing so".

(6) In the normal course of events, the Marine Corps was prepared to return Wilson to Japan without delay. Then Wilson filed suit in the U. S. District Court in Nebraska, asking for a temporary restraining order and injunction against his being sent back.

(7) The Court heard arguments this past week, took the case under advisement, and is expected to rule tomorrow, October 24. I am advised that it is highly likely that



the Court will rule against Wilson, and further that the Circuit Court very likely would sustain such a ruling — and without delay.

(8) From the Japanese point-of-view, time is very much a factor. I understand that unless he is returned to Japan by November 10 the indictment would become void and he could not be re-indicted (I am getting this legal point reviewed thoroughly).

(9) Because of the "Status of Forces Agreement" and its prior application — in a manner which apparently has been fair and satisfactory to us — I sense that both the Defense and State Departments are reluctant to take actions in this case which would violate it.

(10) I am advised that if the facts prove to be substantially the same as they now appear, if convicted Wilson would receive a maximum sentence of three



years, and this might well be suspended, or arrangements might be made to have him serve his sentence in the custody of our authorities.

(11) Alternatively, if handled quietly through diplomatic channels, the Japanese government might agree to waive its "first option to try" if satisfied that Wilson will be prosecuted by our authorities.

(12) The General Counsel for the Defense Department has assured me that — should the Court rule against Wilson — it will not proceed to send him back to Japan until she consults further with me.

Assuming that the Court rules against Wilson, and based upon the information currently available, I recommend:



(A) That you immediately approve Senator Curtis of the apparent facts and of the adverse implications if we flatly ignore our treaty obligations. At the same time you can assure him of your willingness to institute vigorously efforts through diplomatic channels. (1) To try to get the Japanese authorities to waive their "last option to try" with the understanding that Wilson will be prescribed within the Military And if unsuccessful in this approach, should Wilson be convicted and sentenced by a Japanese court, we are willing to offer to have been either passed promptly or turned over to the American authorities to the try of his sentence.

APPROVED -

(B) Should the above recommendations be favorable conference with him, including an immediate review of the situation & necessary action.

DISAPPROVED -

Page six

someone representing you, a  
high level Defense Department  
representative plus a high  
level Marine Corps representative,  
and a high level State  
Department representative.

APPROVED —

✓

DISAPPROVED —

also clear this  
F. Moore  
J

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